Elbit Systems Ltd.
Conference Call
November 28, 2023

Operator: Ladies and gentlemen, thank you for standing by.

Welcome to Elbit Systems' Third Quarter 2023 Results Conference Call. All participants are at present in listen-only mode. Following management's formal presentation, instructions will be given for the question-and-answer session. As a reminder, this conference is being recorded.

You should have all received by now the company's press release that is available in the news section of the company's website, www.elbitsystems.com.

I would now like to hand over the call to Rami Myerson, Elbit Systems' VP - Investor Relations. Rami, please go ahead.

Rami Myerson: Thank you, Yoni.

Good day everyone, and welcome to our third quarter 2023 Earnings Call. On the call with me today are Butzi Machlis, our President and CEO, Kobi Kagan our CFO and Yossi Gaspar, Senior EVP - Business Management.

Before we begin, I would like to point out that the Safe Harbor Statement in the Company's press release issued earlier today also refers to the contents of this conference call.

As we do every quarter, we will provide you with both our regular GAAP financial data as well as certain supplemental non-GAAP information. We believe that this non-GAAP information provides additional detail to help understand the performance of the ongoing

business. You can find all the detailed GAAP financial data, as well as the non-GAAP information and the reconciliation, in today's press release.

Kobi will begin by providing a discussion of the financial results, followed by Butzi who will talk about some of the main events during the quarter and beyond. We will then turn the call over to a question and answer session.

With that, I would like now to turn the call over to Kobi.

Kobi - please?

Yaacov Kagan: Thank you Rami, Hello everyone, and thank you for joining us today.

The financial results of the third quarter of 2023 reflect the sustained demand for our solutions and progress in the implementation of our operational improvement plans.

Butzi will discuss the implications of the war in Israel in his remarks. The extent of the impact of the war on our financial results will depend on future developments that are difficult to predict, including the duration and scope of the war. We continue to monitor the situation closely.

Turning now to the results of the third quarter. Third quarter revenues increased by 11% to one billion, five hundred and 2 million dollars compared to one billion, three hundred and forty nine million dollars in the third quarter of 2022.

In terms of quarterly revenue by segment, Aerospace revenues increased by 24% in the third quarter of 2023 compared to the third quarter of 2022, mainly due to Training & Simulation sales in Europe and UAS sales in Asia Pacific.C4I and Cyber revenues increased by 9% year over year mainly due to radio systems sales in Europe. ISTAR and EW

revenues were similar to the revenues in the third quarter of 2022. Land revenues increased by 7% mainly due to artillery and weapon station sales in Europe. Elbit Systems of America revenues declined 2% in the third quarter due to lower precision guided munition sales.

Elbit Systems diverse geographic revenue base helps to reduce revenue volatility and supports the long-term sustainability of our business. In the third quarter, Europe was our largest market contributing 33% of group revenues, North America was 24%, Asia-Pacific 21% and Israel contributed 15% of revenues. European revenues increased due to growth in sales of radio systems, artillery, weapon stations and training and simulation solutions. Asia-Pacific revenues increased mainly due to growth in UAS sales. Israel revenues declined mainly due to lower ammunition sales in the quarter.

The non-GAAP gross margin for the third quarter was 24.9%, compared to the third quarter of 2022 at 25%. GAAP gross margin in the third quarter was 24.5% of revenues compared to 24.2% in the third quarter of 2022. GAAP and Non-GAAP gross profit in the third quarter of 2022 included approximately $13 million of expenses related to stock price linked compensation plans.

Third quarter non-GAAP operating income was $117 million or 7.8% of revenues, compared to $84.3 million or 6.3% of revenues last year. GAAP operating income for the third quarter was $106.1 million or 7.1% of revenues, versus $73.4 million or 5.4% of revenues in the third quarter of 2022. GAAP and Non-GAAP Operating profit in the third quarter of 2022 included expenses of approximately $22 million related to the stock price linked compensation plans.

The operating expense breakdown in the third quarter was as follows:

Net R&D expenses were 6.9% of revenues, versus 8.4% in 2022. The year-on-year reduction in R&D expenses in the third quarter reflects the phasing of projects.

Marketing and selling expenses were 5.7% of revenues, versus 5.1% last year. The positive inflection in global defense budget growth has created multiple opportunities. The increase in Marketing and Sales spend will help to realize the potential created by these opportunities.

G&A expenses were 4.8% of revenues, compared to 5.9% last year. Other operating income in the third quarter of 2022 of $9.4 million included a capital gain related to the sale of a building in Israel.

Financial expenses were $36 million in the third quarter, compared to $16 million in 2022. Financial expenses in the third quarter were higher as a result of the significant increase in interest rates and higher debt.

We recorded a tax expense of $10 million in the third quarter, compared to $8 million in 2022. The effective tax rate in the third quarter was 15%, compared to 13% in 2022.

Our Non-GAAP diluted EPS was $1 and 65 cents in the third quarter compared with $1 and 40 cents in 2022. GAAP diluted EPS was $1 and 36 cents for the third quarter compared with $1 and 26 cents in 2022.

Our backlog of orders as of September 30, 2023 was $16.6 billion, approximately $1.9 billion higher than the backlog at the end of the third quarter of 2022. Approximately 39% of the current backlog is scheduled to be performed during the remainder of 2023 and 2024, and the rest is scheduled for 2025 and beyond.

Operating cash flow in the third quarter was an $11 million inflow compared to a $178 million inflow in the same quarter last year.

The Board of Directors has declared a dividend of 50 cents per share.

I will now turn the call over to Mr. Machlis, Elbit’s CEO. Butzi, please go ahead.

Bezhalel Machlis: Thank you Kobi. I would like to begin by thanking all Elbit's employees and their families around the world for their hard work and dedication in these challenging times. Since the 7th of October, I have visited Elbit's operations around Israel and our employees deployed in the field supporting the IDF. I am proud of their commitment to all our customers around the world and their dedication provides me with confidence that Elbit Systems will be able to overcome the challenges we face today and may face in the future.

I also want to send my sincere condolences to the families of our employees that have lost their loved ones during this conflict

The financial results in the third quarter, include double digit revenue growth, a record backlog of $16.6 billion, and improved profitability and combined with the significant contracts from customers around the world we received in recent months reflect the strong demand for our solutions. They also increase confidence in our ability to overcome the short term challenges and deliver on our potential in the longer term.

I would like to discuss the impact of the war so far in Israel that presents both challenges and opportunities. Elbit Systems is Israel's largest defense company, and we supply a range of solutions to the Israeli Defense Forces. These include the Digital Army Program or DAP 750 command and control solution, Electronic Warfare systems, UAVs, artillery and mortars, systems for main battle tanks and armored vehicles, night vision systems as well as a range of training and simulation solutions from the single soldier to the squadron and battalion level across all domains and more. Our solutions are currently being used

extensively by the IDF.

We have also accelerated the development of some of our solutions that were still in development and were scheduled to be fielded in the medium or longer term. They have already been sent to the field in days or weeks. We did this thanks to the dedication of our employees and our culture of innovation and creativity.

We have ramped up production to support the IDF and maintain deliveries to our international customers at the same time. We have increased production capacity at our factories by adding shifts and we have rapidly recruited several hundred additional temporary employees to support the surge.

We have implemented all of this at the same time as approximately 15% of our Israeli workforce of 14 thousand employees has been called up to serve as reservists in the IDF. We pray for a safe and speedy return of all the hostages and soldiers to their homes and families.

I would like to share some of my initial observations and the lessons learned from the regular meetings we conduct with the end users in the IDF and discuss some of the relevant contracts received in recent months that demonstrate that our international business remains solid and continues to grow.

The conflict has highlighted the importance of multi-domain warfare that connects all forces operating in the air, on the ground and at sea, and enables the transfer of information between them to close the sensor to shooter cycle rapidly and effectively.

Elbit Systems is a market leading supplier of a range of solutions across the sensor to shooter cycle that is made up of three major elements, the sensors that collect information, the infrastructure that enables the

transfer of the information and the effectors that engage the threats based on the information gathered.

Some examples of our capabilities include:

Our ISTAR and EW division provides a range of advanced sensors that operate across the electro-magnetic spectrum. These sensors collect valuable and actionable mission critical intelligence and can identify, exploit and jam enemy activities and capabilities. The division also provides advanced target acquisition and laser targeting solutions.

In August we were awarded a $55 million contract to supply multi-layered ReDrone Counter Unmanned Aerial Systems to the Netherlands. The ReDrone systems is comprised of advanced radars, SIGINT sensors, an Electro Optical sensor, attack capabilities and a command and control system to protect against the growing drone threat.

We continue to see healthy demand for our night vision solutions from customers around the world including yesterday's announcement from the US DoD for a large Night Vision Goggle contract for ESA's Night Vision business.

The information collected by these sensors that are installed on a range of manned and unmanned platforms is distributed around the battlefield by Elbit Systems C4I and Cyber advanced communications and command-and-control (C4I) solutions, that create a real-time Multi-Domain Network Warfare Environment from headquarters to the front line. The current generation of the digital army program that we supply to the IDF, the Torch-X "DAP 750" enables advanced digital capabilities in the battlefield for the IDF operating on thousands of our E-Lynx advanced software-defined radios that enable the flow of data. DAP 750 connects the forces across multiple domains, enabling the rapid and

effective transfer of information including voice, video and text, around the battlefield to be used by decision makers at all levels of the command chain.

In October, Elbit Systems Sweden was awarded a $170 million 10 year contract to become the integration partner for the Swedish Army's digitalization program LSS mark. This contract is an important validation of our command and control and military digitization capabilities.

Elbit Systems Land provides a range of effectors to the IDF including precision guided munitions launched or released from platforms on the ground, in the air and at sea. We also supply a range of artillery, tank and mortar munition. These effectors enable engagement of the threats identified by the sensors.

In October we received a $135 million dollar two year contract from an International customer to establish an artillery ammunition factory. The contract reflects the strong demand for munitions from countries around the world and the decades of Elbit's experience producing a range of artillery, mortar and tank ammunition.

In September we were awarded two contracts from a European country, worth approximately $200 million, to supply a C4I solution to artillery battalions and a Hostile Fire Counter Attack solution. This solution provides a good example of Elbit's comprehensive sensor to shooter capabilities that help accelerate the cycle to identify and engage the enemy quickly and effectively with limited collateral damage.

We initiated and are implementing our operational improvement plan to support our transformation into a larger more profitable company. The war in Israel has not changed our long-term plans. It also increases the

focus on the portfolio and should help us identify capability or technology gaps as well as those businesses that are less relevant to our strategy.

In summary, I am encouraged by the progress in the third quarter as well as resilience we have demonstrated overcoming multiple challenges in recent years. I am confident in our ability to overcome the current challenges and deliver on our potential to all our stakeholders, our customers, our employees and of course to you, our shareholders.

Before I conclude I would like to thank our customers and partners from around the world for the numerous expressions of support over the last two months.

And with that, we will be happy to take your questions. Operator?

Operator: Thank you, ladies and gentlemen. At this time, we will begin the question-and-answer session. If you have a question, please press star-one. If you wish to cancel your request, please press star-two. If you are using speaker equipment, kindly lift the handset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by we poll for your questions.

The first question is from Pete Skibitski of Alembic Global. Please go ahead.

Pete Skibitski: Thank you. Gentlemen, good afternoon, and I hope you and your families are safe, and you're all doing reasonably well during what I'm sure is a very difficult time.

To start out with Kobi. Kobi, can you talk more about the third quarter, gross margin in particular? I know last year, you had the stock comp expense that impacted gross margin. This year, I think you expected second half margins to be better. So, maybe you could just walk us

through what impacted the third quarter gross margin, and if you expect fourth quarter to see a higher gross margin.

Yaacov Kagan: Yeah. Thank you, Pete. I think there are four layers here to the answer. The first one is that we are still in the implementation phase of our operational improvement plan to support our transformation. And that plan includes the ERP effort and multiple investments that are still going on, and we will see the continuation of the improvement of our profitability at GP and OP level. The second part is, of course, project mix that you have each quarter. The third issue is that we think that it's more relevant to look at three quarters and not just one specific quarter. If you look at the three quarters from the beginning of 2023, you see that if we deduct the stock price linked compensation plans, we keep the same GP level and even a bit better. And the last issue is that when we are discussing prices of products and systems, of course there are variety. We are a very diverse company with a lot of projects and systems and products, and that creates, of course, different environment of prices that we can get from the market. So we think that we are on plan. We see the with the GP, we see an improvement, significant improvement on the operational expenses level. So we keep the trend of improved profitability altogether.

Pete Skibitski: Okay. And just to follow up financially. Do you expect to be free cash flow positive in the fourth quarter?

Yaacov Kagan: As Butzi discussed previously, and as we disclosed, we are expecting the government of Israel, the Ministry of Defense to pay fully their due payments of all of our receivables in the fourth quarter. So certainly, we are expecting a positive Q4, cash flow wise, and we are sure expecting to be fully paid from the government of Israel.

Pete Skibitski: Okay. And then, maybe one last one for me, and I'll get back in queue. For Butzi. Butzi, I don't know if you've had a chance to examine this potential supplemental funding request for Israel that's passed through the US House of Representatives. It's about 14 and a half billion dollars. And, I don't know a lot of the line items, but I have heard there's funding for iron beam, for instance, in there, amongst other items. So, I'm just wondering, I guess, have you had a chance to gain some view of what's in there, and, would you expect that to be meaningful to Elbit, if that passes?

Bezhalel Machlis: Yes, we have an intimate dialogue with our government, with IMOD, on our share in this package. And certainly, I will not go into all the details right now, but I can tell you that we expect to get part of it. As you know, we have Elbit System of America, which produces different systems and products with the IDF using FMF funds. So it's a big opportunity for us, and we expect to enjoy this package as well.

Pete Skibitski: Okay. Yeah, I mean your backlog, I guess, year-to-date backlog is up 9 and a half percent. And that is really before this potential supplemental impact, and any increased Israel MOD funding. So it sounds like maybe all the extra capacity that you've been building is well, it was good foresight, I guess, is the way to say it, to build all that extra capacity. So, thanks, guys. I'll get back in queue.

Yaacov Kagan: Thank you, Pete, very much.

Operator: The next question is from Ella Fried of Bank Leumi. Please, go ahead.

Ella Fried: Good afternoon. Thank you for taking my questions. First, I would like to congratulate you on the growth in revenues this quarter. And mostly, on the way the company is functioning at this time, and I think, as

citizens, we are all very impressed by it. And, it was good to hear, how you cope with the reality creatively and efficiently.

I have a few questions. The first question is about the focus that you mentioned on the portfolio that you are evaluating, maybe from the M&A perspective, potential either buying or selling of capabilities, which makes lots of sense when the company is growing at this pace. Could you give us some more details about this process?

Bezhalel Machlis: Good Afternoon, Ella, good to hear from you. It's an ongoing process that we have in the company, to explore the portfolio we have, to make sure that we have the right portfolio, to add more capabilities, based on M&A opportunities, and to get out from some businesses which are less relevant.

And of course this war focuses us even more. And, so, we see many opportunities for the company, in the near future, and in the medium term. And not just in Israel, also in many other places. And we have a process, and this process is taking place. We made very good acquisitions in the US few years back, and I was very happy to hear yesterday, as I mentioned earlier, that Elbit System Night Vision were awarded a very nice contract in the US to provide night vision equipment to the forces. That's a very good example for an acquisition we've made. So, we continue to look for opportunities to make additional acquisitions, and maybe to get out from some of the businesses we have, which are less relevant. IMI is another very good example. As you all remember, we acquired IMI in 2018, and today it's a completely different company. We combined many elements from Elbit into the Land division. IMI is just one of them. We combined our Artillery piece from Soltam, and we combined the Orion the fuses

center of excellence into that division as well, and warhead guidance capabilities, which came from another part of the organization. So together, we have a very vertical, strong organization, which provides many types of guided munition, not just to Israel, also to many other customers, and we see huge potential for that. So that's another example of a good acquisition we made in the past. So, we continue to explore the portfolio, we continue to look for opportunities, and we adjust the company accordingly.

Ella Fried: Okay. Are you mainly looking outside Israel, you seem to have bought everything that is interesting locally?

Bezhalel Machlis: You know, we are talking about acquisitions. When we are talking about acquisitions, we usually look for two elements. One is new technologies, which we still miss, Rokar, which we acquired from BAE, is a very good example for that. It was a relatively small acquisition, but this acquisition brought us a technology we didn't have, which is related to immune GPS technology. So, this is one type of acquisition. We are looking for another one, is new market positions, like the acquisition we made of Night Vision in the US, which brought us into a new technology as well as to new markets, which we didn't have before. So this is the results to acquisitions, but we are also continuously looking also to make sure that we have the right portfolio. The company has grown a lot, recently, and we need to also look inside, and to see whether we have some capabilities which are less relevant for us today.

Ella Fried: Okay. Well, and I have another question, which is more, I think, related to Kobi. Is the high percentage of people who are mobilized among the workforce, going to have a positive impact on the profitability of the quarter, from where you can see it now?

Yaacov Kagan: First, Hi, Ella. Thank you for your kind words in the beginning. We really appreciate your kind words. Regarding the mobilization, we have currently 15% of our workforce in Israel, which is approximately two thousand employees, which we are very proud that are serving our country in these difficult times. And, of course, that level creates some disruption, which Butzi addressed in the previous remarks, as we are hiring temporary employees, he even referred to some retired employees that came back very happily to support the effort. So, we don't think this is a financial contribution and of course, we didn't decide who the two thousand employees are that were mobilized. So, part of those are from the production, part from of engineering.

Ella Fried: Okay, so overall, it is not contributing financially?

Yaacov Kagan: It would not be a contribution. Of course, it's not a contribution. We try to support this mobilization by actually recruiting hundreds of employees. But, of course, this would not be a supportive or financially positive events in this quarter.

Operator: The next question is from Shahar Cohen of Lucid Capital. Please, go ahead.

Shahar Cohen: Did you get any more clarity about long-term projects within Israeli. And B, sales that are going to the Israel Defense Forces are registered within the Israeli segment? Or if it goes through the American subsidiary, that goes to the US in your report? And C, if you can speak about the potential of Tsayad, in other markets, given the successful implementation, and proven battlefield results we see with that? that would be great.

Bezhalel Machlis: Hi Shahar, it's Butzi. Of course, the IDF is a very important customer of us, and we heavily support the forces, and we get orders from the

IMOD and we expect the market to be supportive to Elbit and we expect to continue to get additional orders. With regards to Tsayad, I will just say that we have already several international customers for this system, and derivatives of these systems are being used in Europe, as well as in North America. And, to the best of my knowledge, we have the most comprehensive solution which is available right now in the market. And we see a lot of potential for that and this system includes radios, networks, application, training packages, and hardware, and many more. So, certainly, there is a lot of interest for these solutions. We are a world leader and we already have many customers. Just a month and a half ago, we reported a nice win in Sweden, to be their partner for the digitization after we won the radios in this country. And we expect to get additional orders.

Yaacov Kagan: Your third question, Shahar, regarding geographical distribution, when we have FMF sales, geographically, it's being recorded under Israel.

Shahar Cohen: Got you. One follow-up question. Have you seen, or what's the most practical yet exciting thing, and tangible, that you can say about the interest of orders, of non-Israeli customers for platforms or solutions, basically being deployed now in Israel? Have you seen any inflection points in some of the solution? If yes, which of your solutions experience an inflection point in demand outside of Israel, as a result of the Gaza war?

Bezhalel Machlis: I think it's too early to speak about the results of the war, and about lessons learned from the war. We are not still there. We are still very much involved in supporting the process. And of course, when this war will be over, we will be in a better position to learn, to understand, and to learn more. You know, of course, when we have the data we share it

with our customers around the world. I can tell you that our solutions and systems are heavily used by the forces. To the best of my understanding, the operators recognize the importance of the solutions that we are providing. And, after the war, we will understand we'll be able to see how this is related to all domains. This is related to C4I, it is related to munitions, is related to optics, to radars, to UAVs, to training system, EW solution, and many others. And this war also forced us to accelerate development processes in the company and to bring solutions quickly to the field. So, at the end of the war, I think we will be able to sit together with our customer, to understand what else needs to be done, and we will share this data with our customer.

Shahar Cohen: Got you. And one last, if I may squeeze, the margin of your rush orders you get currently from Israel, are they below, at, on par, or above your usual margins? I'm talking about gross margin.

Yaacov Kagan: We don't see any different level of margins in the rush orders. We don't see any difference there.

Operator: If there are any other additional questions, please press star-one. If you wish to cancel your request, please press star-two. Please stand by while we poll for more questions. There are no further questions at this time. Before I ask Mr. Machlis to go ahead with his closing statement, I would like to remind participants that a replay of this call will be available two hours after the conference ends. In the US, please call 1-888-782-4291. In Israel, please call 03-925-5900. And internationally, please call 9723-9255-900. A replay of this call will be also available on the company's website, www.elbitsystems.com. Mr. Machlis, would you like to make your concluding statement?

Bezhalel Machlis: I would like to thank our employees again, for their hard work and dedication. To everyone on the call, thank you for joining us today, and for your continued support and interest in our company. Have a good day, and goodbye.

Operator: Thank you. This concludes the Elbit Systems Ltd. third quarter 2023 results conference call. Thank you for your participation. You may go ahead and disconnect.

[End of conference call.]

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